August 12, 2008

WORKING CAPITAL FUND

FY 2008 Third Quarter Report: Summary

I. Relation of Earnings to Expenses

Based on our reviews, the Fund is performing in a manner consistent with past years. Most businesses are expected to break even. Earned revenue for the Fund has totaled slightly over $86.8 million for the Third Quarter, on track for an annual level of approximately $116.1 million as forecast in Table III of the July bill. Business Expense for the same period was $85.4 million resulting in net income of $1.4 million.

WORKING CAPITAL FUND			
FY 2008 Third Quarter Cumulative Business Results (in Millions)			
TABLE I			
Business Line	**Third Quarter Earnings**	**Third Quarter Business Expenses**	**Third Quarter Net**
Supplies	$2.4	$2.4	$0.0
Mail	1.0 $1.8	$1.9	-$0.1
Copying	$1.8	$1.4	$0.4
Printing/Graphics	$1.5	$1.8	-$0.3
Building Occupancy	$56.0	$55.5	$0.5
Telephones	$7.0	$7.1	-$0.1
Network	$4.3	$4.9	-$0.6
Procurement Services	$0.6	$0.7	-$0.1
Payroll Processing	$1.9	$1.6	$0.3
CHRIS	$1.6	$1.6	$0.0
Corp Training Services	$0.3	$0.1	$0.2
PMCDP	$0.8	$0.9	-$0.1
STARS	$3.8	$3.4	$0.4
Financial Controls	$3.0	$2.1	$0.9
TOTAL [1]	**$86.8**	**$85.4**	**$1.4**

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that warrant changes to pricing policies. With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. Specific differences in excess of $50,000 are as follows:

1 When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

- The Mail Business Line experienced net earnings of -$113,867 due to infrastructure costs not covered by mail stop revenue. This loss was expected and the Board has already approved a pricing policy increase in the FY 2009 budget.

- The Copy Business Line experienced net earnings of $374,282, due to small profits in dedicated copier, reductions to maintenance costs, and greater sales of color copies in the Staff Copy Centers.

- The Building Occupancy Business Line experienced net earnings of $550,301, through the Third Quarter due to inadequate accruals and reduced spending in the Electronic Services segment of the business.

- The Phone Business Line experienced net earnings of -$139,161, due largely to increased infrastructure costs that are offset by network infrastructure reductions.

- The Network Business Line experienced net earnings of -$589,043, due a $1million rebate to customers that reduced earnings by $750,000, offset by a prior year cost adjustment.

- Procurement Services experienced net earnings of -$148,045, due to closing out contracts in the Third Quarter that generate less revenue. We expect the net to be zero at year end.

- Payroll experienced net earnings of $295,643 that will be offset by increased costs in the fourth quarter.

- Corporate Training experienced net earnings of $207,276, due largely to the effect of large class size, significantly above the break even required for each class.

- STARS experienced net earning of $392,300 that will be offset in part by increased costs in the fourth quarter.

- The Financial Reporting Control Assessment Business Line experienced net earning of $895,252, because some operations have been deferred pending a review of the program. The program has been so successful that managers are planning a new phase, which should continue to result in lower costs in future periods.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings by a net change of -$3.2 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted $0.6 million to offset the reverse billing for August/September usage billed in October/November. Costs have been adjusted down by $0.3 million for a capital charge ($5.4 million) to phones and network which should not have been costed, offset by cost adjustments to building ($5.1 million) for unpaid third quarter rent due to GSA and other delayed billing.

II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. Through June 2008 we had collected $130.0 million (including prior year funding) compared to the estimated $116.1 million in FY 2008 annual revenues.

WORKING CAPITAL FUND			
FY 2008 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II			
Program Customer	**Annual Estimate**	**Customer Advances[2]**	**Difference**
Bonneville Power Administration	212	N/A	N/A
Office of the Chief Financial Officer	5,348	6,769	1,421
Congressional & Intergovtl Affairs	683	699	16
Economic Impact and Diversity	708	726	18
Energy Efficiency	9,061	7,130	-1,931
Energy Information Administration	6,382	6,249	-132
Environmental Management	9,578	9,776	198
Fossil Energy	4,104	4,105	1
General Counsel	3,177	3,469	291
Office of Human Capital	2,342	2,876	534
Hearings and Appeals	947	838	-109
Health, Safety, and Security	8,745	10,467	1,722
Inspector General	1,727	1,766	39
Chief Information Officer	6,015	8,742	2,727
Intelligence	4,997	6,742	1,746
Legacy Management	650	684	34

2 Customer advances include prior year customer advances. (see Table III).

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FY 2008 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II (continued)			
Program Customer	**Annual Estimate**	**Customer Advances**	**Difference**
Office of Management and Admin.	9,559	10,689	1,130
NNSA	23,220	28,526	5,306
Nuclear Energy	3,203	3,133	-70
Naval Reactors	499	438	-61
Electric Trans & Distribution (OE)	1,311	1,665	354
Public Affairs	487	527	41
Policy and International Affairs	1,983	2,008	25
CRWM	1,974	1,916	-58
Office of the Secretary	1,283	1,165	-118
Science	6,706	7,030	324
WAPA/SWPA/SEPA	1,043	N/A	N/A
Total, Working Capital Fund	$ 116,051	$ 129,957	$ 15,162

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III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business lines. As shown in Table III, allocations exceeded obligations by an estimated $ 50.1 million by the end of the Third Quarter. This is due in part to some programs funding operations beyond our current estimates.

The structure of Table III has changed to show the impact of the Board's decision to obligate program funding at the WCF level and to allocate funding to businesses as needed. The Fund Manager's Reserve reflects the prior year unobligated balances and current year customer advances that have not yet been allocated to specific businesses. This Reserve practice allows administrative efficiencies for program billing, maintains a lower reserve requirement for the Fund as a whole, and improves internal controls by managing business equity centrally.

WORKING CAPITAL FUND FY 2008 THIRD QUARTER BUSINESS RESULTS (IN MILLIONS)			
TABLE III			
Business Line	**Total Allocations**	**Third Quarter Obligations**	**Advances Remaining to be Obligated**
Supplies	$ 3.1	$ 2.8	$ 0.3
Mail	2.5	1.3	1.2
Copying	2.1	1.4	0.7
Printing/Graphics	2.7	1.8	0.9
Building Occupancy	70.3	48.7	21.6
Telephones	15.0	13.9	1.1
Network	7.8	6.2	1.6
Procurement Services	0.7	0.5	0.2
Payroll Processing	1.5	0.8	0.7
CHRIS	2.1	1.3	0.8
Corp Training Services	0.3	0.1	0.2
PMCDP	1.0	0.4	0.6
STARS	5.5	3.8	1.7
Financial Controls	4.0	1.4	2.6
Fund Mgrs Reserve	16.0	0.1	15.9
TOTAL	**$ 134.7**	**$ 84.6**	**$ 50.1**

IV. Changes in Budget Estimates by Business Line and Customer

The $6.9 million decrease from the March 2006 to the December 2006 estimate for FY 2008 was the result of eliminating External Independent Reviews ($7.0 million). In executing FY 2008, estimates for Building Occupancy have increased by $3.9 million, offset by a $1.0 million reduction in usage of printing and graphics. The other businesses have slight offsetting differences from earlier estimates.

FY 2008 Budget Estimates for WCF Businesses

Date	Process	FY 2008 Billing Estimate ($Millions)
March 2006	FY 2008 Corporate Review	$120.1
December 2006	FY 2008 Congressional Budget	$113.2
December 2007	FY 2009 Congressional Budget	$113.2
June 2008	June WCF Bill	$116.1

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the Third Quarter reviews with the businesses the Fund Manager does not foresee a requirement to change pricing policies for **FY 2008**.

- The Phone and Network business modernization that began this fiscal year resulting in further blurring the technical and capital lines between these businesses. The Fund Manager will convene a working group to determine whether the time has come to merge these two businesses into one.
- The Building business is projecting the need for increased contractual support.
- PMCDP may require expanding the pricing policy to develop other programs.

The Board requested a review of the effects of a protracted **FY 2009** continuing resolution. Specific considerations would include:

- Congressional actions that defer requested increases for customer organizations (to pay increased WCF charges) would inhibit planned FY 2009 pricing policy changes upward in business line cost levels;

- Continuing resolution language on "new starts" would affect the initiation of certain

building improvements planned in the FY 2009 request; and
- Where FY 2008 customer-funded activities are proposed for inclusion into the Fund in FY 2009, there would remain questions about whether to continue to operate such "businesses" outside the Fund, albeit with customer payments earning credits toward eventual inclusion of the activity into the Fund later in FY 2009.

The results of the Manager's review of these conditions, based on scenarios considered most likely today, can be summarized as follows:

- The major FY 2009 financing change, transferring DCAA audits into the Fund, would likely need to be deferred until Congress enacts a FY 2009 budget, in part because of previous congressional language of a decade ago removing the audits from the Fund. Customer organizations should continue to work with the Office of Procurement and Assistance Management (OPAM) under the current non-Fund methodology, with the understanding that upon the transfer of DCAA audits into the fund, there would be equitable treatment of early FY 2009 customer funding for OPAM.
- The planned "LAI" funding increases for the Office of Management business lines would not proceed under a part-year continuing resolution except for the portions thereof which began being billed to customers in FY 2008, leaving MA with the funding responsibility during such period.
- The small MA business segments (couriers, messengers, etc) previously financed from direct citation of customer funds would continue to be so managed outside the Fund, but customers would be asked to cooperate with MA to ensure adequate and fair availability of obligation authority.
- The expansion of the construction projects funding of the Building business line would be deferred, with consequent effects on the Forrestal stairwell project. The significant planned expansion of WCF funding for the On-Line Learning center would also be deferred.
- The incremental funding of the I-MANAGE business lines for STRIPES and for the ORFSC will also need to be reconsidered.

All of these judgments will need to be reviewed in the context of actual congressional actions.

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Financial Management Systems Progress

The WCF billing system continues to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to STARS by the Third working day of the month. This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in STARS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.